



United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-285840

July 27, 2000

The Honorable Fred Thompson
Chairman
Committee on Governmental Affairs
United States Senate

Subject: Financial Management: Improper Payments Reported in Fiscal Year 1999
Financial Statements

Dear Mr. Chairman:

This letter responds to your request for information on the extent of improper payments estimates—estimates for payments made for unauthorized purposes or excessive amounts, such as overpayments to program recipients or contractors and vendors—reported in agencies' fiscal year 1999 financial statements.¹ In these financial statement reports, 12 of the 24 CFO Act agencies have taken the initiative to collectively report improper payment estimates of \$20.7 billion, which has resulted in the disclosure of important information for oversight and decision-making.² These improper payment estimates include \$4.4 billion of receivables³ that these agencies expect to collect and relate to 20 major programs, which we have defined as those that disburse \$1 billion or more annually. The enclosure to this letter lists the 12 agencies and the manner in which they reported improper payments in their fiscal year 1999 financial statement reports for the 20 programs identified.

¹The Chief Financial Officers Act of 1990 (CFO), as expanded by the Government Management Reform Act of 1994 (GMRA), requires 24 major departments/agencies to prepare agencywide financial statements and have them audited.

²Improper payments reported by the Department of Health and Human Services (HHS) for Medicare Fee-for-Service claim payments, the Department of Agriculture for the Food Stamp program, and the Department of Housing and Urban Development for Housing Subsidy programs are estimates made using statistical sampling. According to the HHS Office of Inspector General, the majority of the improper payments for Medicare Fee-for-Service claim payments were detected through medical record reviews. Once an improper payment is identified for Medicare Fee-for-Service claims payments, the provider has the option to appeal the decision and provide more documentation to support the payment.

³Improper payments reported as receivables represent overpayments made over multiple fiscal years, including 1999.

Last year, we reported⁴ that 8 of these 12 agencies reported improper payments in their fiscal year 1998 financial statements. This year, we identified four additional agencies—the Departments of Defense, Energy, Justice, and State—that reported improper payments in their fiscal year 1999 financial statements. Another agency—the Agency for International Development—which reported making improper payments in its fiscal year 1998 financial statements, did not report any improper payments in its fiscal year 1999 financial statements. Our prior report also noted that 9 agencies collectively reported improper payment estimates of \$19.1 billion in their fiscal year 1998 financial statements.

Our audits and those of agency inspectors general continue to demonstrate that improper payments are much more widespread than agency financial statement reports have disclosed thus far. For example, the Internal Revenue Service (IRS) and the Department of Education did not report improper payments, even though audit reports indicate that they have made such payments. For IRS, the audit report disclosed that the full magnitude of improper refunds IRS disbursed is unknown but could be billions of dollars.⁵

Additionally, not all agencies are performing comprehensive internal studies or reviews to determine the propriety of program expenditures for certain programs, including some of those that disclosed improper payments in their fiscal year 1999 financial statements. For example, certain agencies⁶—some of which are major departments—acknowledged making improper payments in their fiscal year 1999 financial statements but did not disclose amounts.

Because the methodologies used by some agencies to estimate improper payments do not always result in complete estimates and many other agencies have not attempted to identify or estimate improper payments, the government does not have a reasonable basis for gauging the extent of its improper payments. Ascertaining the extent of improper payments is the first step in assessing the need for and extent of corrective actions required. Obtaining these data would give agencies baseline information for assessing causes and making cost-effective decisions about enhancing controls to minimize future improper payments.

At your request, we are currently (1) determining the extent to which the Office of Management and Budget has implemented the recommendations made in our prior report, (2) assessing the extent to which agencies' fiscal year 1999 financial

⁴*Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments* (GAO/AIMD-00-10, October 29, 1999).

⁵*Financial Audit: IRS' Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, February 29, 2000).

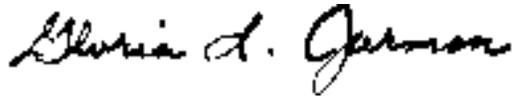
⁶These agencies and their related programs are the Department of Energy (no specific program identified); the United States Department of Agriculture—Federal Crop Insurance Corporation; the Department of Justice—Federal Bureau of Investigation; the Department of Housing and Urban Development—Federal Housing Administration; the Department of Health and Human Services—Medicaid; the Department of State (no specific program identified); and the Department of Veterans Affairs—Veterans Benefits programs.

management plans and fiscal year 2001 performance plans address improper payments, and (3) identifying other actions that might encourage agencies to better report the extent of their improper payments. We will report to you separately on these issues.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. Then, we will send copies to Senator Joseph Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Senator Pete V. Domenici, Chairman, and Senator Frank R. Lautenberg, Ranking Minority Member, Senate Committee on the Budget; Representative Dan Burton, Chairman, and Representative Henry A. Waxman, Ranking Minority Member, House Committee on Government Reform; Representative John R. Kasich, Chairman, and Representative John M. Spratt, Jr., Ranking Minority Member, House Committee on the Budget. We will also send copies to the Honorable Jacob J. Lew, Director of the Office of Management and Budget, and the heads of the 24 CFO Act agencies, and their respective agency CFOs and inspectors general.

Please contact me at (202) 512-4476 or by e-mail at jarmong.aimd@gao.gov if you or your staff have any questions concerning this letter. Key contributors to this letter were Kevin Carey, Kelly Lehr, Meg Mills, and Debra Sebastian.

Sincerely yours,



Gloria L. Jarmon
Director, Health, Education, and Human Services
Accounting and Financial Management Issues

Enclosure

**Agencies and Programs That Reported Improper Payments
in Their Fiscal Year 1999 Financial Statements**

(Dollars in millions)

Department or Agency	Program	Estimated amount reported as a cost of operations	Amount reported as part of multiyear accounts receivable
Department of Agriculture (USDA)	Federal Crop Insurance Corporation		\$0.0 ^a
	Food Stamp Program	\$1,290.0	
Department of Defense	Military Retirement Fund		25.3
Department of Energy	No specific program identified		0.0 ^a
Department of Health and Human Services ^b	Medicare Fee-for-Service <i>Claim Payments</i>	13,500.0	
	<i>Cost Reports</i>	600.0	
	Medicaid	0.0 ^c	
Department of Housing and Urban Development	Housing Subsidy Programs	935.0	
	Federal Housing Administration		0.0 ^a
Department of Justice	Federal Bureau of Investigation		0.0 ^a
Department of Labor	Federal Employees' Compensation Act		19.2
	Unemployment Insurance		142.3
Office of Personnel Management	Federal Employees' Group Life Insurance		0.2
	Federal Employees' Health Benefits		93.0
	Retirement		84.0
Social Security Administration	Disability Insurance		1,118.0
	Old Age and Survivors Insurance		1,325.0
	Supplemental Security Income		1,578.0
Department of State	No specific program identified		0.0 ^a
Department of the Treasury – Customs	Drawbacks and Refunds		0.4
Department of Veteran Affairs (VA)	Veterans Benefits programs		0.0 ^a
Total		\$16,325.0	\$ 4,385.4

^aThe agencies administering these programs acknowledged making improper payments as part of their discussion of accounts receivables in their fiscal year 1999 financial statements but did not disclose specific dollar amounts for the improper payments. The appropriate segments of these accounts receivable—such as receivables with the public—ranged from \$1 million at USDA to \$581 million at VA. However, there was no indication as to how much of these accounts receivable had stemmed from improper payments.

^bWithin its financial statement footnotes, HHS also acknowledged that various programs under the Administration for Children and Families, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Administration may have made improper payments. However, HHS stated that it did not believe that these amounts would be material to the agency's financial statements.

^cHHS acknowledged making improper payments related to the Medicaid Program as part of its management's discussion and analysis in its fiscal year 1999 financial statements but did not disclose a specific dollar amount. Source: GAO analysis based on a review of the CFO Act agencies' fiscal year 1999 financial statement reports.

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